

Rhodes ANNUAL REPORT 1968

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

Rhodes

DIRECTORS:

PARK B. DOWD, *Vice President*
HERBERT I. DUNN
J. C. ERNST
JOHN J. GOLDBERG, *Assistant Secretary*
ELLIOTT McALLISTER, *Director,*
The Bank of California, N.A.
LEE G. PAUL, *Partner,*
Paul, Hastings, Janofsky & Walker
JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,*
Secretary and Treasurer
F. A. WICKETT

OFFICERS:

JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,*
Secretary and Treasurer
PARK B. DOWD, *Vice President*
M. W. EDSON, *Vice President*
JOHN J. GOLDBERG, *Assistant Secretary*

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Arthur Andersen & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 22, 1969, 11:00 o'clock A.M.

Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California

TO OUR SHAREHOLDERS

March 31, 1969

Sales of Rhodes in 1968 were \$72,427,826, an increase of 4% over the \$69,639,283 reported for 1967. Net profit for the fiscal year was \$1,028,195 equal to \$1.26 a share on common stock after payment of preferred dividends. In 1967 the net profit was \$1,214,058 or \$1.51 a common share. The provision for the surtax on Federal Income taxes for this year reduced earnings approximately 16¢ per share.

In 1968 Rhodes paid four regular quarterly dividends of 25¢ a share on common stock and dividends amounting to \$150,000 on preferred stock.

During the year the Company acquired 16,446 shares of its common stock. The shares purchased were added to the treasury and a total of 4,950 shares were sold to employees under the terms of the Company's Employee Stock Purchase and Employee Stock Option Programs. As previously stated it has been and is the plan of the Company to buy shares of its common stock at such times and in such amounts as appear sound and desirable with due consideration as to price, available funds and other factors.

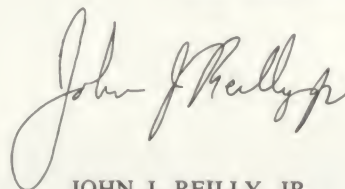
The centralization and strengthening of the Company's merchandising and sales promotion organization is continuing under the direction of M. W. Edson, the Corporate General Merchandise Manager. Mr. Edson was elected a Vice President at the February meeting of the Board of Directors. In midyear we were able to take a further step by establishing four regional groups for store administration. Each group of stores is supervised by a Region General Manager. This will simplify the administration of the Company and will contribute to the effectiveness of the central merchandising and sales promotion staff.

In March of last year the Company was saddened by the untimely death of Mr. O. James Mauel. Mr. Mauel had been a director of the company since 1961 and a valued friend who will be greatly missed.

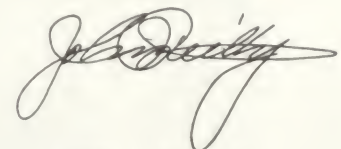
For the fiscal year the Company's contribution to its Profit Sharing Plan amounted to \$144,203. At the end of the year 1,210 people were participants in the Company's Profit Sharing Plan.

Mere numbers are not adequate to reflect our most valuable asset, the people of Rhodes. We are fortunate to have in the Rhodes Organization a strong loyal staff constantly striving to improve our service and operations. To them and to our customers, suppliers, and stockholders, we extend thanks for the support they have given Rhodes.

FOR THE BOARD OF DIRECTORS:



JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN

RHODES BALANCE SHEET

ASSETS	January 31 1969	January 31 1968
CURRENT ASSETS:		
Cash and short-term securities	\$ 1,357,879	\$ 1,210,348
Accounts receivable, less allowance for doubtful accounts— 1968, \$472,000; 1967, \$487,000	14,448,436	14,973,382
Merchandise inventories—at lower of cost or market as determined by the retail inventory method	15,364,855	15,534,767
Total current assets	<u>\$31,171,170</u>	<u>\$31,718,497</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unexpired insurance, prepaid taxes and other deferred expenses	\$ 743,575	\$ 653,276
Miscellaneous receivables, deposits, etc.	241,849	265,071
	<u>\$ 985,424</u>	<u>\$ 918,347</u>
PROPERTIES, at cost:		
Land	\$ 129,991	\$ 129,991
Furniture, fixtures, equipment, etc.	6,393,037	6,214,509
Leasehold improvements	4,561,282	4,495,949
Accumulated depreciation and amortization (Note 5)	(8,392,914)	(7,846,131)
	<u>\$ 2,691,396</u>	<u>\$ 2,994,318</u>
	<u>\$34,847,990</u>	<u>\$35,631,162</u>

The accompanying notes are an integral part of these balance sheets.

LIABILITIES

January 31
1969

January 31
1968

CURRENT LIABILITIES:

Accounts payable	\$ 3,452,913	\$ 3,785,797
Payrolls, taxes and other accrued liabilities	1,042,892	1,126,229
Current instalment on note payable	500,000	500,000
Federal income taxes (including deferred taxes applicable principally to instalment receivables of \$1,569,000 in 1968 and \$1,675,000 in 1967)	<u>2,930,886</u>	<u>2,755,644</u>
Total current liabilities	<u>\$ 7,926,691</u>	<u>\$ 8,167,670</u>

LONG-TERM NOTE—

5% payable \$500,000 annually; balance due March 1, 1981 (Note 2)	<u>\$ 6,500,000</u>	<u>\$ 7,000,000</u>
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STOCKHOLDERS' EQUITY:

Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Notes 1 and 2)	\$ 3,000,000	\$ 3,000,000
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 709,538 issued shares of which 17,255 shares were held in Treasury on January 31, 1969 (Notes 1 and 3)	177,385	177,385
Capital in excess of par value of common stock (Note 3)	2,620,859	2,544,797
Retained earnings, per accompanying statement (Note 2)	<u>14,623,055</u>	<u>14,741,310</u>
	<u>\$20,421,299</u>	<u>\$20,463,492</u>
	<u>\$34,847,990</u>	<u>\$35,631,162</u>

The accompanying notes are an integral part of these balance sheets.

RHODES STATEMENT OF INCOME

	Year ended January 31 1969	Year ended January 31 1968
Net sales including leased departments	\$72,427,826	\$69,639,283
Cost of sales	\$47,077,730	\$45,441,058
Selling, operating and administrative expenses, less credit service charges	21,908,381	20,626,624
Depreciation and amortization	551,690	627,155
Contributions under employee benefit plans	455,915	454,495
Interest expense	355,432	391,285
	<u>\$70,349,148</u>	<u>\$67,540,617</u>
	\$ 2,078,678	\$ 2,098,666
Other income	164,517	200,392
Income before federal income taxes	\$ 2,243,195	\$ 2,299,058
Provision for federal income taxes (including provision for deferred taxes of (\$106,000) in 1968 and \$55,000 in 1967)	1,215,000	1,085,000
Net income for the year (\$1.26 per share in 1968 and \$1.51 per share in 1967) (Note 6)	<u>\$ 1,028,195</u>	<u>\$ 1,214,058</u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$14,741,310	\$14,465,166
Net income for the year	1,028,195	1,214,058
	<u>\$15,769,505</u>	<u>\$15,679,224</u>
Less:		
Cash dividends paid:		
Preferred stock	150,000	150,000
Common Stock	697,280	704,284
Cost of Treasury stock purchased	299,170	83,630
Retained earnings at end of year (Note 2)	<u>\$14,623,055</u>	<u>\$14,741,310</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements, January 31, 1969

NOTE 1: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, the amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978, and \$300,000 for years 1979-1983, less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof.

The purchaser of Series A Preferred was granted a warrant which expires June 1, 1973, entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1969, 20,000 unissued common shares were reserved for this purpose.

NOTE 2: ■ The Series A Preferred stock and long-term note agreements each provide, among other things, for restrictions on the payment of cash dividends. At January 31, 1969, retained earnings of approximately \$925,000 were available for the payment of dividends.

NOTE 3: ■ During the year, 4,950 treasury shares were sold to employees under the Employee Purchase Plan. Additionally, 646 shares of common stock which had been previously sold to employees were surrendered to the company, in accordance with the conditions of the plan. The proceeds from the shares sold (\$87,068) less the cost of the surrendered shares (\$11,006) were added to capital in excess of par value.

The company adopted in 1965, a qualified stock option plan under which options may be granted to officers and key employees to purchase common stock at prices equal to the fair market value at the date of grant. During 1968, options for 1,000 shares granted in prior periods were cancelled. At January 31, 1969, there were options outstanding for 19,500 shares at prices ranging from \$17.125 to \$17.93 per share and 30,000 shares of common stock were reserved for this purpose. Options granted in 1963 are exercisable ratably over a four-year period commencing two years from date of grant; options granted in 1966 may be exercised in four equal annual instalments commencing one year from date of grant.

NOTE 4: ■ The company has long-term leases on all of its stores and also leases on fixtures in four of the stores. These leases expire at various dates from 1972 to 1994. Total lease payments charged to operating expenses in 1968 amounted to \$3,225,000. The minimum rental commitment for 1969 is \$3,101,000.

NOTE 5: ■ Provision for depreciation of furniture and fixtures, equipment, etc., is computed at rates based upon useful lives of from three to fifteen years for the various classes of assets. Depreciation of assets acquired prior to January 31, 1954, is computed using the straight-line method; generally, depreciation of assets acquired subsequent to January 31, 1954, is computed using the declining balance method. Leasehold improvements are being amortized over the term of the related lease or fifteen years using the declining balance method, as applicable.

NOTE 6: ■ Net income per share is based on the weighted average of common shares outstanding during the respective periods. The exercise of warrants and options outstanding at January 31, 1969, would have no material dilutionary effect on net income per share.

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of Rhodes Western:

We have examined the balance sheet of Rhodes Western (a California corporation) as of January 31, 1969, and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of Rhodes Western as of January 31, 1969, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

San Francisco, California,
March 14, 1969.

ARTHUR ANDERSEN & CO.

<i>1965</i>	<i>1964</i>	<i>1963</i>	<i>1962</i>	<i>1961</i>	<i>1960</i>
\$63,544,037	\$56,948,324	\$50,044,477	\$46,035,273	\$45,516,456	\$46,069,861
1,419,619	1,789,495	2,462,718	2,295,074	2,410,895	3,201,566
560,000	715,000	1,260,000	1,190,000	1,250,000	1,675,000
859,619	1,074,495	1,202,718	1,105,074	1,160,895	1,526,566
1.01	1.49	1.72	1.58	1.66	2.19
150,000	25,000				
704,428	701,882	700,221	699,808	700,710	595,321
1.00	1.00	1.00	1.00	1.00	.85
358,712	1,024,529	425,961	506,198	901,837	1,197,153
750,252	633,250	785,054	834,802	802,213	751,554
13,574,239	13,026,294	10,804,115	3,249,488	9,628,071	9,542,428
12,114,756	12,176,226	10,019,604	8,866,276	8,678,698	7,745,446
22,863,375	19,963,852	17,086,704	16,595,316	16,621,038	16,787,803
4,180,597	4,572,137	4,180,858	4,539,951	4,873,740	4,771,203
34,313,862	31,685,664	27,440,462	26,775,009	26,109,278	27,137,693
8,500,000	6,000,000	6,000,000	6,440,000	6,880,000	7,320,000
16,643,593	16,594,730	16,212,781	15,696,893	15,323,788	14,786,624
23.61	23.63	23.15	22.45	21.85	21.23
1,904	1,917	1,994	2,000	2,135	2,042
2,552	2,467	2,200	2,093	2,050	2,069
12	11	9	9	9	8

RHODES TEN YEAR SUMMARY OF OPERATIONS

<i>Years Ended January 31</i>	<i>1969</i>	<i>1968</i>	<i>1967</i>	<i>1966</i>
Net sales	\$72,427,826	\$69,639,283	\$69,061,842	\$65,974,224
Income before federal income taxes	2,243,195	2,299,058	2,132,077	1,878,285
Federal income taxes	1,215,000	1,085,000	1,035,000	790,000
Net income	1,028,195	1,214,058	1,097,077	1,088,285
Per common share	1.26	1.51	1.35	1.33
Dividends paid				
Preferred stock	150,000	150,000	150,000	150,000
Common stock	697,280	704,284	705,057	705,044
Per common share	1.00	1.00	1.00	1.00
Additions to properties	243,861	272,197	293,929	261,794
Depreciation and amortization	551,690	627,155	693,168	693,519
Accounts receivable	14,448,436	14,973,382	14,253,017	14,168,020
Merchandise inventories	15,364,855	15,534,767	13,536,757	13,040,829
Working capital	23,244,479	23,550,827	23,324,597	23,145,012
Properties, net	2,691,396	2,994,318	3,348,490	3,747,729
Total assets	34,847,990	35,631,162	35,215,850	35,166,658
Long-term debt	6,500,000	7,000,000	7,500,000	8,000,000
Stockholders' equity	17,421,299	17,463,492	17,081,191	16,887,976
Per common share	25.16	24.81	24.32	23.94
<i>At year end:</i>				
Shareholders, common stock	1,517	1,591	1,706	1,786
Employees	2,430	2,404	2,514	2,665
Stores in operation	13	13	13	13

Rhodes